

Message Text

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TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 5822

INFO AMEMBASSY MOSCOW

AMEMBASSY BUDAPEST

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C O N F I D E N T I A L SECTION 01 OF 02 BONN 01059

E.O. 11652: GDS

TAGS: EEWT, HU, GW

SUBJ: FRG-HUNGARIAN ECONOMIC RELATIONS

1. MFA OFFICER RESPONSIBLE FOR HUNGARIAN ECONOMIC AFFAIRS BRIEFED EMBOFF FOLLOWING FIRST SESSION OF THE GERMAN-HUNGARIAN MIXED ECONOMIC COMMISSION, WHICH MET JANUARY 14 AND 15 IN BONN. CHARACTERIZING THE DISCUSSIONS AS THE MOST PLEASANT AND PRODUCTIVE OF SESSIONS HELD OVER THE PAST YEAR OR TWO WITH EASTERN BLOC STATES, FONMIN OFFICIAL FOCUSED HIS REPORT ON INDUSTRIAL COOPERATION, TRADE RELATIONS AND HUNGARIAN HARD CURRENCY SITUATION.

2. INDUSTRIAL COOPERATION

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AT THE MOMENT HUNGARY IS THE FRG'S MOST ACTIVE PARTNER

IN INDUSTRIAL COOPERATION VENTURES. AT THE END OF 1975, 190 PROJECTS HAD BEEN AGREED UPON. THIRTY OF THESE HAVE ALREADY BEEN COMPLETED. OF THE 190 NEARLY ALL WERE IN THE INDUSTRIAL SECTOR WITH 49 PROJECTS IN MACHINE SECTOR AND 30 IN THE TECHNICAL--ELECTRIC SECTOR. FORTY-EIGHT PROJECTS ARE NOW IN THE FINAL STAGES OF NEGOTIATION. WHILE MOST OF THE PROJECTS INVOLVE COPRODUCTION OR IMPORT-REEXPORT ARRANGEMENTS, THE HUNGARIANS HAVE BEEN KNOWN TO INCLUDE SIMPLE COMMERCIAL TRANSACTIONS IN THE TOTAL OF COOPERATIVE ARRANGEMENTS. FOR EXAMPLE, THE HUNGARIAN CLAIM THAT APPROXIMATELY 350 NEW COOPERATIVE VENTURES ARE UNDER CONSIDERATION APPEARS, ACCORDING TO OUR SOURCE, TO BE CONSIDERABLY EXAGGERATED. THE HUNGARIANS HAVE BEEN PARTICULARLY PLEASED THAT AT LEAST 3/4 OF THE COOPERATIVE VENTURES INVOLVE SMALL AND MIDDLE-SIZED FIRMS. FONMIN OFFICIAL TOLD US THAT THE HUNGARIANS ARE INTERESTED IN FURTHER COOPERATION IN THREE PARTICULAR AREAS: ALUMINUM, COPPER AND INFRASTRUCTURE DEVELOPMENT. AT THE MOMENT, HOWEVER, THERE SEEMS TO BE LITTLE INTEREST AMONG GERMAN INDUSTRIALISTS IN COOPERATIVE VENTURES OF THIS SORT, PARTICULARLY WITH RESPECT TO ALUMINUM.

3. TRADE

THE FRG SIDE COMPLAINED TO THE HUNGARIANS ABOUT THE SHARP REDUCTION OF HUNGARIAN IMPORTS FROM THE FRG. THROUGH THE FIRST ELEVEN MONTHS OF 1975 FRG EXPORTS TO HUNGARY DROPPED 18.2 PERCENT. ON THE IMPORT SIDE, HUNGARY EXPORTS TO GERMANY DROPPED TWO PERCENT. THE GERMAN DELEGATION WAS TOLD THAT THE SHARP REDUCTIONS IN IMPORTS FROM THE FRG WAS NECESSITATED BY THE DEFICIT IN GERMAN-HUNGARY TRADE AND THE NEED OF THE HUNGARIANS TO CLOSELY WATCH THEIR HARD CURRENCY EXPENDITURES IN PREPARATION FOR THE 1976-1980 FIVE YEAR PLAN. THE HUNGARIANS ALSO TOLD THE GERMAN SIDE THAT DURING THE NEXT FIVE YEARS THEY INTEND TO INCREASE IMPORTS FROM THE WEST BY 36 TO 40 PERCENT. FRG OFFICIALS HOPE THAT GERMAN INDUSTRY WILL GARNER A LARGE SHARE OF THIS INCREASE.

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 01059

4. HARD CURRENCY SITUATION

THE HUNGARIANS TOLD THEIR HOSTS THAT THEIR FINANCIAL POSITION WAS QUITE STRONG IN SPITE OF HIGHER IMPORT COSTS FROM BOTH THE RUBLE AREA AND HARD CURRENCY ZONE. THEY EMPHASIZED THAT THEIR CURRENCY EARNINGS WOULD BE SUFFICIENT TO COVER THEIR SHARE OF ALL CURRENT AND PLANNED INDUSTRIAL COOPERATION PROJECTS WITH THE WEST. SHOULD ADDITIONAL INDUSTRIAL COOPERATION CONTRACTS BE SIGNED DURING THE NEXT YEAR, FURTHER EURODOLLAR LOANS MAY BE REQUIRED. DURING 1975 HUNGARY WAS ABLE TO COVER ITS HARD CURRENCY TRADE DEFICIT WITH LOANS FROM THE BANK OF AMERICA (\$150 MILLION), A SUBSIDIARY OF FIRST NATIONAL CITY

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BANK (\$100 MILLION), A GERMAN BANKING CONSORTIUM (\$100 MILLION IN JULY), AND A \$60 MILLION LOAN FROM KUWAIT. AT NO TIME DID THE HUNGARIANS ASK FOR GOVERNMENT LOANS OR FOR SUBSIDIZED COMMERCIAL CREDITS FROM THE FRG. NEWS REPORTS PRIOR TO THE COMMISSION MEETING HAD ALLEGED THAT THE HUNGARIANS WOULD BE ASKING FOR THESE TWO TYPES OF CREDITS. FONMIN OFFICIAL TOLD US THAT THE HUNGARIAN DELEGATION WAS "SHOCKED" BY THESE REPORTS.

5. ATMOSPHERICS

OUR SOURCE, WHO HAS PARTICIPATED IN MANY MIXED COMMISSION MEETINGS INVOLVING EAST EUROPEAN COUNTRIES, TOLD US THAT HE AND OTHER MEMBERS OF THE GERMAN SIDE WERE "ASTONISHED" BY THE LIBERAL ECONOMIC THINKING DISPLAYED BY THE HUNGARIAN DELEGATION. THE HUNGARIANS WERE PARTICULARLY PRAGMATIC WITH RESPECT TO FUTURE ECONOMIC COOPERATION BETWEEN THE TWO COUNTRIES. THEY DID NOT, FOR EXAMPLE, INSIST UPON A MYRIAD OF SUB-COMMISSIONS AND WORKING GROUPS AS HAS BEEN THE CASE WITH NEARLY ALL OTHER EASTERN BLOC STATES. REALIZING THAT THE GERMAN GOVERNMENT PREFERS TO LEAVE THE BULK OF COOPERATIVE RELATIONS WITH THE EAST TO GERMAN INDUSTRY, THE HUNGARIANS WERE QUITE CONTENT TO WORK THROUGH THE MAIN COMMISSION AND TO CREATE AD HOC GROUPS WHEN A PARTICULAR PROJECT DEMANDED GREATER ATTENTION. THE HUNGARIANS ALSO SPOKE RATHER OPENLY ABOUT THEIR TRADE RELATIONS WITH OTHER EASTERN BLOC STATES AND THE INHIBITING ROLE THIS HAS PLAYED IN THE EXPANSION OF TRADE WITH GERMANY. FOR THESE REASONS THE GERMAN DELEGATION FOUND THE TWO-DAY SESSION TO BE BOTH INFORMATIVE AND PLEASANT. FONMIN OFFICIAL GAVE EMBOFF THE CLEAR IMPRESSION THAT THE CLIMATE FOR AN EXPANSION IN FRG/HUNGARY ECONOMIC RELATIONS IS PARTICULARLY FAVORABLE.

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